

## Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00 CIAE-00

DODE-00 PM-03 H-02 INR-07 L-02 NSAE-00 NSC-05 PA-01

PRS-01 SP-02 SS-15 ERDA-05 AID-05 CEA-01 CIEP-01

COME-00 EB-07 FEAE-00 FPC-01 INT-05 OMB-01 SAM-01

OES-03 STR-04 TRSE-00 FRB-03 /088 R

DRAFTED BY EUR:RDVINE/EB/ORF/FSE:LRAICHT:SLU

APPROVED BY EUR:RDVINE

EB:JKATZ

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA IMMEDIATE

C O N F I D E N T I A L STATE 092966

E.O. 11652:GDS

TAGS:ENRG, CA, US

SUBJECT: IMPENDING CANADIAN DECISION TO RAISE PRICE OF GAS

- EXPORTED TO THE UNITED STATES

REF: (A) OTTAWA 1449; (B) OTTAWA 1451

, DEPARTMENT BELIEVES IT WOULD BE USEFUL IF YOU COULD  
MAKE AN APPROACH AT MINISTERIAL LEVEL, PRIOR TO THE  
APRIL 24 CABINET MEETING, FOLLOWING UP KATZ' DISCUSSIONS  
IN OTTAWA APRIL 22.

2. OUR OBJECTIVES ARE THREE-FOLD: A) TO MOVE OUT THE  
EFFECTIVE DATE OF ANOTHER PRICE INCREASE; B) TO ASSURE  
LINKAGE BETWEEN CANADIAN DOMESTIC PRICE OF GAS AND EXPORT  
PRICES; AND C) TO RELATE PRODUCTION SHORTFALLS AND PRICE.  
WE SEEK FORMAL CONSULTATIONS TO THIS END.

3. RATHER THAN POINTS RAISED REFTELS, DEPARTMENT CONSID-  
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ERS APPROACH SHOULD BE ALONG FOLLOWING LINES:

(A) WE FAIL TO UNDERSTAND THE URGENCY OF AN INCREASE SOLELY IN THE EXPORT PRICE OF CANADIAN NATURAL GAS, SINCE IT DOES NOT APPEAR THAT THIS WILL BE ACCOMPANIED BY A SIMILAR SIMULTANEOUS RISE IN PRICE TO CANADIAN CONSUMERS. WHEN PREVIOUS INCREASE ANNOUNCED LAST FALL, GOC STATED PUBLICLY THAT DOMESTIC PRICES WOULD BE INCREASED ALSO. THERE IS STILL NO SIGN OF SUCH AN INCREASE.

(B) ANOTHER PRICE INCREASE WILL BE A FURTHER BREACH OF LONG TERM GAS CONTRACTS. WHILE WE RECOGNIZE THAT SOVEREIGN GOVERNMENTS CAN NULLIFY CONTRACTS, SUCH PRACTICE CAUSES DISRUPTION OF NORMAL TRADE RELATIONSHIP AND SHOULD THUS BE AVOIDED.

(C) WHILE THE USG RECOGNIZES THE NEED TO RAISE NATURAL GAS PRICES TO COMMODITY VALUE, IT BELIEVES THIS MOVEMENT SHOULD BE GRADUAL TO PROVIDE SUFFICIENT TIME FOR CONSUMERS TO ADJUST AND TO ENSURE SOME DEGREE OF PREDICTABILITY IN ENERGY PRICES. AS RECENTLY AS FIRST MINISTERS CONFERENCE EARLIER THIS MONTH, CANADIAN MINISTERS INDICATED THAT THE INCREASE IN ENERGY COMMODITY PRICES TO COMMODITY VALUE WOULD BE A GRADUAL ONE.

(D) WHILE CANADIAN NATURAL GAS IMPORTS CONSTITUTE ONLY 4.5 PERCENT OF TOTAL U.S. GAS SUPPLY, ON A REGIONAL AND LOCAL BASIS, PRIMARILY THE PACIFIC NORTHWEST AND CALIFORNIA, THIS GAS MAKES UP A HIGH PERCENTAGE OF TOTAL CONSUMPTION AND THE PRICE IMPACT IS SHARP AND IN SOME CASES SEVERE. AT THE SAME TIME, YOU SHOULD NOTE THAT UNITED STATES CONSUMERS OF CANADIAN NATURAL GAS IN THIS AREA HAVE ALREADY BEEN ASKED TO ABSORB ALL SHORTFALLS OF CURRENT PRODUCTION WHILE CANADIAN CONSUMERS RECEIVE THEIR FULL SUPPLY.

(E) THE DISCUSSIONS BETWEEN PRESIDENT FORD AND PRIME MINISTER TRUDEAU IN DECEMBER, AND SECRETARY OF STATE MACEACHEN'S COMMENTS IN HIS WINNIPEG SPEECH STRESSED THE NEED FOR ADVANCE CONSULTATIONS PRIOR TO TAKING DECISIONS THAT WOULD AFFECT EACH OTHER'S INTERESTS.  
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(F) WE REQUEST, THEREFORE, THAT A UNILATERAL CANADIAN DECISION IN THIS MATTER BE DELAYED PENDING FULLER EXAMINATION OF THE EFFECTS OF BOTH GAS PRICES AND THE APPORTIONMENT OF GAS PRODUCTION SHORTFALLS ON BOTH COUNTRIES. TO THIS END, WE SUGGEST COMPREHENSIVE CONSULTATIONS WHICH WE WOULD BE PREPARED TO HOLD AT THE MINISTERIAL LEVEL. KISSINGER

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